

**HEALTHCORPS INC.
(A Not-for-Profit Corporation)**

**INDEPENDENT AUDITORS' REPORT
AND FINANCIAL STATEMENTS**

JUNE 30, 2009 AND JUNE 30, 2008

**FRIEDMAN, FELDMESSER & KARPELES, CPA LLC
CERTIFIED PUBLIC ACCOUNTANTS**

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Healthcorps Inc.
(A Not-for-Profit Corporation)
New York NY

We have audited the accompanying statements of financial position of the Healthcorps Inc. (A Not-for-Profit Corporation) (f/k/a Foundation for the Advancement of Cardiac Therapies, Inc.), as of June 30, 2009 and 2008, and the related statements of activity, and cash flows for the years then ended. These financial statements are the responsibility of the Healthcorps's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis of our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Healthcorps Inc. (A Not-for-Profit Corporation) as of June 30, 2009 and 2008 and the results of its activities and its cash flows for the year then ended in conformity with generally accepted accounting principles.

As discussed in Note 9 to the financial statements, certain errors which resulted in an incorrect presentation of unrestricted and temporarily restricted fund balances as of June 30, 2008, were found by management of the Organization,. These resulted in an overstatement of Accounts Receivable and an understatement of deferred revenue. Accordingly the financial statements for the year ended June 30, 2008, have been restated correcting the errors in the appropriate categories.

Friedman, Feldmesser & Karpeles CPA LLC

Jupiter FL

April 30, 2010

HEALTHCORPS INC.
(A Not-for-Profit Corporation)
STATEMENTS OF FINANCIAL POSITION
JUNE 30,

A S S E T S

	<u>2009</u>	<u>2008</u>
Cash and cash equivalents	551,755	\$910,665
Accounts receivable	2,128,677	2,665,457
Prepaid expenses	97,235	2,753
Property & equipment, at cost, less accumulated depreciation of \$23,572 & \$18,164	35,788	32,552
Other assets	<u>10,109</u>	<u>10,109</u>
Total assets	<u><u>\$2,823,564</u></u>	<u><u>\$3,621,536</u></u>

LIABILITIES AND FUND BALANCE

Accounts payable and accrued expenses	\$359,831	\$232,931
Deferred revenue	<u>300,000</u>	<u>600,000</u>
	<u>659,831</u>	<u>832,931</u>
Fund balance, unrestricted	<u>2,163,733</u>	<u>2,788,605</u>
Total fund balance	<u>2,163,733</u>	<u>2,788,605</u>
Total liabilities and fund balance	<u><u>\$2,823,564</u></u>	<u><u>\$3,621,536</u></u>

See independent auditors' report and accompanying footnotes

HEALTHCORPS INC.
(A Not-for-Profit Corporation)
STATEMENTS OF ACTIVITY AND FUND BALANCE
FOR THE YEARS ENDED JUNE 30,

	<u>2009</u>	<u>2008</u>
Unrestricted Support & Revenue		
Support		
Donations	184,841	\$319,788
Grant income	2,068,555	1,850,089
Rental income & other income	42,985	33,180
Interest & dividend income	5,699	48,329
Increase in temporarily restricted assets	--	375,660
	<u>2,302,080</u>	<u>2,627,046</u>
Revenue		
Fund raising events, less direct expenses of \$306,334	<u>964,816</u>	<u>1,317,046</u>
Total unrestricted support & revenue	<u>3,266,896</u>	<u>3,944,092</u>
Expenses		
Program	3,197,171	2,525,065
General & administrative	570,043	378,990
Fund raising	124,555	163,270
Total operating expenses	<u>3,891,768</u>	<u>3,067,326</u>
Unrealized gain (loss) on investments	<u>--</u>	<u>(1,845)</u>
Total investment gains (losses)	<u>--</u>	<u>(1,845)</u>
(Decrease) increase in unrestricted net assets	(624,872)	874,921
Net assets released from restrictions	<u>--</u>	<u>(375,660)</u>
Increase (Decrease) in net assets	(624,872)	499,261
Net assets, beginning of year	<u>2,788,605</u>	<u>2,289,344</u>
Net assets, end of year	<u><u>\$2,163,733</u></u>	<u><u>\$2,788,605</u></u>

See independent auditors' report and accompanying footnotes

HEALTHCORPS INC.
(A Not-for-Profit Corporation)
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30,

	<u>2009</u>	<u>2008</u>
CASH FLOWS FROM OPERATIONS		
Increase (Decrease) in net assets	<u>(624,872)</u>	<u>499,261</u>
Adjustments to Reconcile Change in Net Assets to Net Cash Flow Provided by Operating Activities		
Depreciation	5,408	5,577
Decrease in value of investments	0	1,845
(Increase) Decrease in other assets	0	(8,815)
Decrease (Increase) in prepaid expenses	(94,482)	4,799
Assets abandoned	0	1,015
(Increase) Decrease in accounts receivable	536,780	(2,619,711)
Increase in accounts payable & accrued expenses	126,900	160,187
(Decrease) Increase in deferred revenues	<u>(300,000)</u>	<u>600,000</u>
Total adjustments	<u>274,606</u>	<u>(1,855,103)</u>
Cash used by operations	<u>(350,266)</u>	<u>(1,355,842)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of furniture & equipment	<u>(8,644)</u>	<u>(23,774)</u>
Cash supplied (used) by investing activities	<u>(8,644)</u>	<u>(23,774)</u>
Net (decrease) in cash	(358,910)	(1,379,616)
Cash balance, Beginning of year	<u>910,665</u>	<u>2,290,281</u>
Cash balance, End of year	<u><u>\$551,755</u></u>	<u><u>\$910,665</u></u>

See independent auditors' report and accompanying footnotes

HEALTHCORPS INC.
(A Not-for-Profit Corporation)
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2009

	<u>Total</u>	<u>Program</u>	<u>General & Admin</u>	<u>Fundraising</u>
Payroll, payroll taxes & benefits	\$2,288,003	\$2,012,677	\$196,281	\$79,045
Professional	117,450		117,450	
Marketing & advertising	12,588		6,294	6,294
Rent and utilities	86,772	47,725	30,370	8,677
Office	125,147	72,867	44,314	7,966
Telephone	26,548	14,601	9,292	2,655
Technical support	50,061	17,521	27,534	5,006
Insurance	9,385	4,974	3,191	1,220
Postage	18,746	8,702	10,044	
Depreciation	5,408	2,704	2,704	
Curriculum & educational material	784,117	784,117		
Travel	71,335	27,379	43,956	
Donations	3,310		3,310	
School equipment & other program expense	128,451	128,451		
Outside service contracts	136,915	47,920	75,303	13,692
Research grants	27,532	27,532		
	<u>\$3,891,768</u>	<u>\$3,197,171</u>	<u>\$570,043</u>	<u>\$124,555</u>

See independent auditors' report and accompanying footnotes

HEALTHCORPS INC.
(A Not-for-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 1 – ORGANIZATION

Healthcorps of Florida Inc. (formerly known as Foundation for the Advancement of Cardiac Therapies) ("Florida") was formed in 2000 and incorporated in Florida as a not-for-profit organization for the purpose of providing funds for research to find methods to assist in the repair and maintenance of functions of the human heart. The mission is accomplished by using the efforts and resources of its staff as well as continuously seeking private support to help fund the research efforts. Florida is qualified as an exempt organization under Section 501(c)(3) of the Internal Revenue Code and is not subject to federal income taxes. The name change took place on April 9, 2008.

During the 2008 fiscal year another not-for-profit was formed in New York under the name of Foundation for the Advancement of Cardiac Therapies and subsequent to year end renamed itself Healthcorps Inc. ("New York"). New York is also operating as a Section 501(c)(3) under an advance ruling from the IRS until June 30, 2012. At that time New York may file for permanent not-for-profit status.

As of July 1, 2008, Florida is now classified as a membership organization, the sole member being New York.

The mission of both organizations has been changed from research regarding the function of the human heart to running projects in various states that promote physical well being in high schools. The organizations (New York & Florida) supply equipment and instructors at no cost to the school. The equipment is purchased by the Organization and donated to the school. The schools supply space for operation of the program.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements of Healthcorps have been prepared on the accrual basis.

Financial Statement Presentation

Healthcorps has adopted Statement of Financial Accounting Standards (SFAS) No. 117, "Financial Statements of Not-for-Profit Organizations". Under SFAS No. 117, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. In addition, Healthcorps is required to present a statement of cash flows. The Organization does not presently have any permanently restricted assets.

The Organization also has adopted SFAS No. 116, "Accounting for Contributions Received and Contributions Made". In accordance with SFAS No. 116, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions.

Contributions of cash or other assets, including unconditional promises to give, are recognized as revenues or gains in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Contributions received will be measured at their fair values and will be reported as permanently restricted support or unrestricted support. Restricted support increases permanently restricted net assets or temporarily restricted net assets. Unrestricted support increases unrestricted net assets.

HEALTHCORPS INC.
(A Not-for-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and Equipment

Property and equipment in excess of \$500 is recorded at cost. Depreciation is computed using the straight-line method over the estimated useful lives of each category of asset over a period of three to ten years.

Income Taxes

Healthcorps, A Not-for-Profit Corporation, is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code. See Note 1 above regarding advance rulings for a New York Organization.

Functional Allocation of Expenses

The costs of providing the various programs and services have been summarized on a functional basis in the accompanying financial statements. Accordingly, certain costs have been allocated among the programs and supporting services benefited based on an analysis of personnel time and resources utilized for the related activities.

Donated Goods and Services

Donated materials and supplies and services are recorded as contributions at their estimated fair values at date of receipt.

Accounting Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Accrued Vacation Pay

Healthcorps Inc. offers vacation allowances to its employees. The amount of allowed vacation time depends on job function and tenure with the organization. As of July 1, 2007 these benefits are on a use it or lose it basis and on December 31 of each year unused time is removed without pay. No accrual has been made for the current year end as it has been deemed immaterial.

Investments

Investments held by Healthcorps are carried at market value at the balance sheet date. Any unrealized appreciation or depreciation is recorded in the Statement of Activity. At June 30, 2009 and 2008, the Organization held only equity securities which are carried at market value.

Statement of Cash Flows

For purposes of reporting cash flows, cash includes cash in banks, money market accounts, and certificates of deposit and restricted cash expected to be utilized in less than three months.

HEALTHCORPS INC.
(A Not-for-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 3 – PROPERTY AND EQUIPMENT

Property and equipment are summarized by major classification as follows:

Furniture	\$27,697
Computer & equipment	<u>31,662</u>
	59,359
Less: accumulated depreciation	<u>(23,572)</u>
	<u>\$35,788</u>

NOTE 4 – RESEARCH GRANTS

Requests for grants are made by various entities, mostly other not-for-profits, such as universities and other research facilities. The Board and the Executive Director carefully review all grant requests and make the grants that best further the goals of Healthcorps. All grants require final reports and an accounting as all unused funds are to be returned to Healthcorps. Grants may be for a term of up to two years. Healthcorps expenses the grant in full in the year that the grant is made and there are no estimates made for possible refund of unused dollars.

NOTE 5 – TEMPORARILY RESTRICTED ASSETS

During the current and prior fiscal years, the Organization solicited donations and ran fundraisers for a specific program that works with high school age students. The Organization has received donations and/or commitments specifically for this program and the increase in net assets for the current year is solely for use in this program. There maybe certain temporary restrictions regarding where the funds may be used. As of June 30, 2009 none of the net assets are restricted.

NOTE 6 – COMMITMENTS AND CONTINGENCIES

Effective December 1, 2005 the Organization subleased approximately 1,700 sq. ft. of space for a period ending January 27, 2007 at a monthly rent of \$4,119, including common area maintenance. A new lease was signed directly with the building owner beginning January 28, 2007 for a two year period at a beginning rent in the amount of \$3,581 plus common area maintenance. The increase in base rent is 3% upon the beginning of the next year. This lease was broken in May 2008 when the main office moved to New York. The Organization paid a total of \$18,000 subsequent to year end to be let out of the lease early. This amount has been accrued in the statements for the year ended June 30, 2008.

NOTE 7 – CONCENTRATION OF RISK

The US Government has insurance (FDIC) that covers up to \$250,000 for any one customer at each bank. The Organization has approximately \$275,000 that is uninsured by FDIC as of June 30, 2009. The banks used by the Organization are large commercial banks which tend to mitigate the risk of loss.

HEALTHCORPS INC.
(A Not-for-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 7 – GRANT INCOME

During the prior year the Organization had a verbal agreement with a university in New York City as a sub grantee to the New York City Department of Health in the amount of \$250,000. This is a reimbursable grant. As of June 30, 2007, the Organization expended approximately \$159,000 for which it had not been reimbursed. During the current year, management had discussions with the university management and the university agreed to reimburse the Organization for this amount of money. Subsequent to this year end \$158,000 has been received. No additional funds have been spent by the Organization since June 30, 2007. Accounts receivable includes these funds.

NOTE 8 – LONG TERM LEASES

The Organization has operating leases both for equipment used at the schools. The leases are non cancelable. These leases are fixed rental amounts ranging between \$2,228 and \$3,060. Expirations are between August 31, 2010 and January 15, 2011

Additionally, the Organization leases office space under lease dated August 7, 2007 for three years beginning September 1, 2007. Rent is \$4,300 per month for the entire lease.

The Organization has also leased additional office space at a fixed monthly rental of \$2,200. The lease is from August 15, 2008 through August 31, 2010.

Lease payments payable through expiration dates for all leases are as follows:

2010	\$176,640
2011	<u>52,644</u>
	<u>\$229,284</u>

NOTE 9 – RESTATEMENT OF PRIOR YEAR

Subsequent to year end June 30, 2008, the Organization discovered the following information;

1. At the time the statements were issued management estimated the amount to be collected for the government reimbursable contract. This resulted in overstating of the fund balance and accounts receivable by \$403,000.
2. A contributing organization requested that funds pledged be changed from a donation to a grant subsequent to the issuance of the financial statements which resulted in an overstatement of fund balance and temporarily restricted assets by \$600,000.

This resulted in a decrease in the net change in fund balance by \$1,003,000 as well as reducing accounts receivable in the amount of \$403,000 and increasing deferred revenue by \$600,000.